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Directive 86-27: Excess Exemptions

Facts: Taxpayer Baker is married and files a joint return. He and his wife have two children. Taxpayer Baker has Part B (5%) gross income of \$10,000. His Part B income after deductions is \$5,000. Taxpayer Baker's personal exemptions, and his exemptions for dependents, equal \$5,800. Baker takes his exemptions against his remaining Part B income, which reduces it to 0 and results in \$800 of excess exemptions. Baker also has Part A (10%) income of \$1,000. Neither he nor his wife is a beneficiary of a trust or estate.

Issue: May Taxpayer Baker use the \$800 excess of his exemptions over his Part B income taxed at 5% to offset his Part A income taxed at 10%?

Discussion: Massachusetts law provides that any excess of the personal and other exemptions over Part B adjusted gross income, after deductions, may be applied to reduce Part A adjusted gross income. G.L. c. 62, § 3A(b).

In determining whether there are excess exemptions, the taxpayer must first take the deductions allowed against Part B gross income in computing Part B adjusted gross income. (AGI deductions). G.L. c. 62, § 2(d). Next, the taxpayer must subtract any deductions allowed against Part B adjusted gross income in computing Part B taxable income. G.L. c. 62, § 3B(a). Finally, the taxpayer applies his/her exemptions against any remaining Part B taxable income. G.L. c. 62, § 3B(b). If there is an excess of exemptions over Part B taxable income and the taxpayer is not a beneficiary of a taxable trust or estate, the excess may then be used to offset Part A income. G.L. c. 62, § 3A(b). There is no requirement that the Part A income be connected with a trade or business.

In the case of a married person, the excess exemptions may be taken against Part A income only if a joint return is filed. G.L. c. 62, § 3A(b).

Directive: Taxpayer Baker may use the \$800 excess of his exemptions over his Part B income taxed at 5% to offset his Part A income taxed at 10%.

Reference: G.L. c. 62, §§ 2(d), 3A(b), 3B(a), (b).

/s/Ira A. Jackson
Ira A. Jackson
Commissioner of Revenue

31 December 1986

DOR-D 86-27

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This Directive represents the official position of the Department of Revenue on the application of the law to the facts as stated. The Department and its personnel will follow this Directive, and taxpayers may rely upon it, unless it is revoked or modified pursuant to 830 CMR § 62C.01(5)(e). In applying this Directive, however, the effect of subsequent legislation, regulations, court decisions, Directives, and TIRs must be considered, and Department personnel and taxpayers may rely upon this Directive only if the facts, circumstances and issues presented in other cases are substantially the same as those set forth in this Directive.